



Milk Producers Council

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks +\$.0350 \$1.4050
Barrels +\$.0550 \$1.3850

CHICAGO AA BUTTER

Weekly Change +\$.0250 \$1.6350
Weekly Average +\$.0280 \$1.6220

NON-FAT DRY MILK

Week Ending 6/11 & 6/12
Calif. Plants \$1.2815 7,152,422
NASS Plants \$1.3039 11,511,717

Weekly Average

Blocks +\$.0200 \$1.3930
Barrels +\$.0374 \$1.3570

DRY WHEY

WEST MSTLY AVG w/e 6/11/10 \$.3888
NASS w/e 6/12/10 \$.3683

CHEESE MARKET COMMENTS: Average prices for cheese on the CME increased this week for the first time in four weeks. Prices were unchanged on Monday and Thursday, and there were zero trades until today when a total of 49 truckloads changed hands. The only news of note this week was USDA's *Outlook* updated projection of milk production and prices, which was generally negative. Reasons for the sudden increase in activity are unclear. *Dairy Market News (DMN)* this week noted that milk production continues at higher than expected levels, with some being offered to plants at discounted prices, but the protein content of the milk is dropping seasonally. A normal summer season sales pattern is apparent – lower overall sales, particularly mozzarella, buttressed by Fourth of July and eventually Labor Day holiday sales spikes. DMN does note an increase in the amount of cheddar and mozzarella being stored for aging. CWT continues to report approvals for subsidized exports of American cheeses. Much more has to happen if milk prices are to reach levels sufficient for most producers to be able to realistically see a future in this business. **Look at recent prices:** the average class III price (for cheese making) in federal orders for the March-May period was \$13.03 per cwt; California's class 4b price averaged \$11.91 per cwt; CME's class III futures price for June is sitting at \$13.58 per cwt, and the highest class III futures price for any month over the next 24 months is for this October, \$14.70 per cwt, which requires a \$1.56 per lb NASS cheese price to get even there.

BUTTER MARKET COMMENTS: It was also another slow week for butter on the CME, but prices advanced another \$.025 per lb. Only 2 trades occurred. This week's average price was a new high for the year, having risen \$.291 per lb since the week ending February 10th. However, caution is setting in on the CME; futures prices have peaked at \$1.69 per lb for the year. Domestic sales are reported to be holding up and export volume has certainly been helping to keep butter stocks at levels that don't seem to be of concern to manufacturers or buyers.

POWDER MARKET COMMENTS: Prices reported to NASS for current sales of nonfat dry milk (through June 11) have now increased 9 weeks in a row. However, the sales volume continues to indicate that the amount of produced but unsold product continues to grow. The price reported by California plants was unchanged from last week, but is within \$.02 per lb of the NASS price. DMN reports that the growing stocks do not appear to be of sufficient concern to manufacturers to cause them to offer lower prices on the spot market. U.S. prices for nonfat dry milk sales continue to be the lowest world-wide, and the European Union has again rejected bids from local buyers for some of its aging skim milk powder in storage. Despite the increasing prices, the market for nonfat dry milk does not look particularly strong at this point. DMN reports the market tone in the central and eastern regions to be weakening. Futures prices on the CME have been moving lower; the October-December price is now \$.11 per lb below the most recent NASS price. Demand for dry buttermilk powder is steady to strong, but supplies are reported to be limited, and prices are moving up. Same story for whole milk powder, only different – demand is steady to strong, supplies are limited, **exports for the first four months this year have doubled**, and DMN reports U.S. buyers are having to source their needs from importers. Is that not an indication of a dysfunctional market? Prices for whole milk powder are and have been high relative to those for

nonfat dry milk and skim milk powder and yet U.S. production remains very low. Wouldn't increased production of a good quality whole milk powder in the U.S. accomplish two positive results: higher profits for U.S. manufacturers and lower production of nonfat dry milk and butter?

WHEY PRODUCTS MARKET COMMENTS: Prices for dry whey were slightly lower last week (the NASS report) and this week (the West's "mostly" average). DMN reports sales continue to readily clear manufacturers' sites, but some buyer resistance has appeared. The NASS prices have been generally steady and currently are about \$.015 per lb above their lows for the year, reached in late April. The markets for whey protein concentrates and dry lactose are steady; manufacturers' stocks are about in keeping with production; prices are holding; exports are continuing.

FRED DOUMA'S PRICE PROJECTIONS...

June 18 Est:	Quota cwt. \$ 15.16	Overbase cwt. \$13.47	Cls. 4a cwt. \$15.27	Cls. 4b cwt. \$12.24
Last week:	Quota cwt. \$ 15.03	Overbase cwt. \$13.34	Cls. 4a cwt. \$15.05	Cls. 4b cwt. \$12.11

USDA ESTIMATES MILK PRODUCTION IN MAY INCREASED LESS THAN EXPECTED: (By J. Kaczor) The punch in the nose was softer than expected. Today, USDA released its adjusted numbers for April and preliminary numbers for May, for number of dairy cows, production per cow, and total U.S. milk production.

For April, USDA found 3,000 more cows, 1 more lb of production per cow, and 14 million lbs more milk. The percentage increase was changed from +1.5% above the previous April to +1.6%. For May, the U.S. added another 4,000 cows, production per cow increased by 54 lbs for the month, and total milk production increased by 177 million lbs. The percentage increase above last May was 1.1%. While the 54 lbs per cow increase was higher than historical figures for the month, and certainly higher than what was wanted, it broke the sequence of month-to-month increases that began in February. (The increase for April was 62 lbs.)

California had 65,000 fewer cows than a year ago. Production per cow increased by 75 lbs per cow, and milk production rose by only 6 million lbs. Compared to April, California producers milked 1,000 fewer cows, daily production per cow fell by 0.5 lbs, and total daily production was 1 million lbs lower. It appears the California industry now has a fairly good balance between milk production capacity and plant capacity, if only it can be held there.

The regional comparisons (using five Western states and six Midwestern states) reviewed in past monthly reports continues to show remarkably little difference between those regions, at least in changes in numbers of cows. The total change in number of cows between this May and last October being milked in Arizona, California, Idaho, New Mexico, and Texas, is +4,000; the total for Illinois, Indiana, Iowa, Michigan, Minnesota, and Wisconsin is +5,000. [The other twelve states in the top twenty-three milk producing states added a total of 12,000 over this seven month period.] These numbers confirm the fact that the major adjustments, meaning departures from the industry, occurred in the first three quarters of last year. It's not good milk prices keeping those numbers so stable. It's more like a combination of lower feed costs, continuing low interest rates, the hope for higher milk prices, the lack of other good options, and downright determination to not let the bad guys win.

While May's milk production came in lower than expected, it's still an all time record for the month, and indicative of more to come. Realistically, barring some kind of combination of unexpected favorable developments for the U.S. industry, such as happened in 2007 and part of 2008, the prospects for higher cheese and nonfat dry milk prices over a sustained period of time, doesn't seem to be very high. That's unfortunate. It would be so much better if the prospect for higher future milk prices was based on solid data supporting a better balance between supply and demand, than on mere hope.

WHY THE DAIRY PRODUCT PROCESSORS ARE OPPOSED TO H.R. 5288: (By Rob Vandenheuvel)
Over the past month, this newsletter has taken a look at various aspects of H.R. 5288, the “Dairy Price Stabilization Act of 2010.” If you missed any of those articles, you can find them on www.milkproducers.org. Today that series continues with a closer look at the politics of H.R. 5288 – specifically, **why are the processors so opposed to the bill?**

This past week, the CEO of the International Dairy Foods Association (IDFA), Connie Tipton, spoke at a Washington, DC conference and blasted those who are supporting H.R. 5288. In her speech, she painted the bill as a “supply management” proposal where “every dairy farmer would be given a quota and would pay extra taxes if they produced more than the government dictates.”

Regular readers of this newsletter can see the political propaganda dripping from Ms. Tipton’s remarks. For those who have read and understood the bill, there is **no government mandate** on dairy farmers and **no production “quota.”** Every dairy has the opportunity to produce as much milk as he or she sees fit. What H.R. 5288 does is allow producers to work together to more rationally grow our production to meet the ever-increasing demand for our dairy products. The bill aims to allow our nation’s producers to provide all the milk needed for our markets, while using financial incentives to help avoid having all 65,000 dairies expand production at the same time, which has created the chronic surpluses of milk that have become commonplace in our industry.

So after reading Ms. Tipton’s comments (which can be found in full at <http://www.idfa.org/news-views/details/4848>), the obvious question is this: **what is it about H.R. 5288 that inspires the main lobbying arm of our nation’s processors to resort to harshly attacking efforts to promote this well-thought-out and common sense proposal?** Well it’s simple: **it appears the processors want to enhance their control over the supply of milk.**

A major theme is many of the processors priorities when it comes to dairy policy is a systematic reduction of the government’s role in milk pricing. While there are certainly some in the producer sector that make this case as well, it is an overwhelming priority of IDFA and many of our nation’s processors. Why is that? What is it about the government’s role in milk pricing that many of our dairy product processors find so objectionable?

To answer that question, we need to establish why the government is involved in the dairy industry in the first place. While the world has changed over the years, one thing that has remained constant is the **highly-perishable nature of milk**. As a dairy farmer, you have to sell your milk virtually **every day**, to a group of buyers that **don’t have to buy every day** (and they don’t have to necessarily buy their milk supply from you, as milk is largely uniform from dairy-to-dairy). That fact, in-and-of-itself, puts you as a dairy farmer in an **immediate disadvantage** at the negotiating table. California dairy farmers need to look no further than pre-1969 (the introduction of milk “pooling” in California) to remember what negotiations were like in this type of unregulated environment.

That unequal balance of power is precisely why the government plays a role as a “referee.” There is no argument that the government has overstepped its role in American agriculture. But its basic function as a “referee” in the negotiation between farmer and processor remains a valid role. That involvement as a referee is what separates the U.S. dairy industry from other agricultural industries that have gone down the “unregulated” route, such as the U.S. poultry industry.

Last month, an article was written by Christopher Leonard of the Associated Press entitled, “*Farmers tell feds poultry companies control them.*” The article is based on testimony from current and past poultry farmers at a U.S. Department of Justice hearing held last month at Alabama A&M University. Included in the article are the following excerpts:

- [Alabama chicken farmer Garry Staples] raises birds for Pilgrim’s Pride, one of the nation’s biggest poultry companies. But like other farmers who raise most of the chickens Americans eat, he doesn’t own the birds he raises, nor does he determine what food they eat or medicine they get. Pilgrim’s Pride

controls that.

- Although they raise birds for different companies, the farmers said they have little power to negotiate with the businesses that control an increasingly consolidated industry.
- “The chicken companies know they don’t have to treat you fairly,” Staples said.
- Companies lure farmers into borrowing money to build chicken houses, then threaten to cancel their contracts if farmers complain about pay or refuse to invest more money to upgrade the buildings, [Kay Doby, a former chicken farmer from North Carolina] said.
- **“This system takes hardworking farmers and makes them indentured servants on their own land,”** Doby said. **“I can’t tell you how many times I’ve heard that our contract would be canceled if we did such and such.”**

The full article can be read at: http://news.yahoo.com/s/ap/20100521/ap_on_bi_ge/us_antitrust_agriculture. **I strongly encourage every dairy farmer to read this article very closely.** That testimony offers a sobering glimpse into what happens when an industry ignores the unequal balance of power between producer and processor, and attempts to operate without using the government as a “referee.”

Look at the recent NBA championship that ended yesterday. Did the referees in those games make some mistakes? Video replays sure indicate they did. But does that mean we should eliminate the referees from the game of basketball? What would happen if the referee’s were no longer there? That’s simple: the strongest would dominate. And in the dairy industry, the strongest are primarily the processors, given their advantageous position at the negotiating table.

Over the years, the dairy farming community has gone to great lengths to help provide our dairy product processors with the best opportunity to profitably operate. Through the use of “make allowances,” processors are virtually guaranteed an opportunity for a profit margin. Further, our industry has supported a government price support program that guarantees a willing buyer of some of their basic products when the milk market collapses. Our processor sector has largely been insulated from much of the market risk.

Dairy farmers don’t have that luxury. As farmers, you bear **virtually all the price risk** when dairy markets collapse. **That enhanced risk is why dairy farmers and producer organizations across the country are seeking long-term solutions that will better equip our industry to maintain a reasonable balance in supply and demand.** H.R. 5288 has been and continues to be a big part of that discussion. And yet, the leadership in the processor sector seems not only unwilling to be a productive part of that debate, but IDFA has gone so far as to blast the efforts of dairymen across the country engaging in that debate. That is truly unfortunate.

So as a dairy farmer, what does this tell you? The clearest message it should send is that if you want to empower yourselves as dairy farmers to control your own destiny, **you’ll have to send that message loud and clear.** The processor groups that are working against H.R. 5288 aren’t just opposing it because they don’t like the specifics of the bill – **they’re opposing it because they want to control your milk supply.**

Earlier today, MPC published a press release entitled, “Milk Producers Council Responds to Outrageous Comments by IDFA’s CEO.” If you did not receive this press release, you can find it on our website at: http://www.milkproducerscouncil.org/061810_idfarelease.htm.

A CALL TO ACTION!

On the next page of this newsletter is a dairy farmer petition. If you support the efforts of H.R. 5288 and want to send that message to your cooperative, your trade association, and your member of Congress, **please fill out the petition and fax it in. Take the petition to your neighboring dairy and ask him or her to sign it too. Dairy farmers need to speak up and be heard.** **It’s the only chance dairy farmers have at successfully securing your future!**

And as always, if you have any questions about H.R. 5288, you can check out www.stabledairies.com or give us a call at (909) 628-6018.

